

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <b>MERRILL DISTRICT LIBRARY</b>	County <b>SAGINAW</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/16/06</b>	Date Accountant Report Submitted to State: <b>6/07/06</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)

**GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.**

Street Address

**4855 STATE STREET**

City

**SAGINAW**

State

**MI**

ZIP

**48603**

Accountant Signature

*Heather A Thomas CPA*

Date

**6/07/06**

**MERRILL DISTRICT LIBRARY**

**Merrill, Michigan**

**Financial Statements**

**December 31, 2005**

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

March 14, 2006

To the Board  
Merrill District Library  
Merrill, Michigan

We have audited the accompanying financial statements of the governmental activities of the Merrill District Library as of and for the year ended December 31, 2005, which comprises the Merrill District Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Merrill District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Merrill District Library at December 31, 2005, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles and with applicable rules and regulations of the State Treasurer.

To the Board of Trustees  
Merrill District Library  
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in the notes to the financial statements, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2005.

*Sardner, Proenzomo, Schawmen & Thomas, P. C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

MERRILL DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2005

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This section of the financial report presents our discussion and analysis of the Merrill District Library's financial performance during the year ended December 31, 2005. It is meant to provide an overall review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's financial performance.

The Merrill District Library is a special purpose government engaged in a single government program of providing library services. As allowed by single purpose governments, the government-wide and fund level statements are combined. Certain comparative information between the current year and prior year is ordinarily required to be presented in the Management Discussion and Analysis. The Library has elected to exclude comparative information from the prior year, as permitted by GASB Statement No.34 in the first year of adoption of the Statement. The Governmental Accounting Standards Board (GASB) is the accounting standard-setting body for governmental entities. Subsequent reports will include a prior year comparison of results, as required.

#### **Using this Annual Report**

This annual report consists of the following three parts:

Management's Discussion and Analysis (this section)  
Basic Financial Statements  
Required Supplemental Information

These statements are organized to help the reader understand the financial position of the Merrill District Library as a whole. The government-wide financial statements provide information about the activities of the Library as a whole. The fund financial statements provide the next level of detail, providing more detailed information about the Library's General Fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by required supplemental information that supports and further explains the financial statements with a comparison of the Library's budget for the year.

#### **Government-wide Financial Statements**

The government-wide statements are new and provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including programming and technology. These activities are mostly funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two government-wide statements: The Statement of Net Assets and the Statement of Activities.

**Government-wide Financial Statements (continued)**

The Statement of Net Assets includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets of the Library are included in this statement.

The Statement of Activities accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the Library's assets and liabilities. The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of whether the Library's financial health is improving or deteriorating. However, the Library's goal is to provide services to our patrons, not generate profits as in the private sector. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the Library's building and the property tax base of the library.

**Fund Financial Statements**

The fund financial statements focus on providing more detailed information about the Library. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. The fund statements provide a detailed short-term view of the Library's operations and help in determining whether there are more or less financial resources available in the near future to finance the Library's programs and services provided.

In general, the fund financial statements have changed very little as a result of GASB 34 requirements and are relatively comparable to the prior year financial statements. The primary difference is that the Account Group-General Fixed Assets is no longer reported.



MERRILL DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2005

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**Fund Financial Statements (continued)**

**Summary of Net Assets**

The net assets for the Library were \$331,409 at December 31, 2005 as follows:

<u>Governmental Activities</u>	<u>2005</u>
<b>Assets</b>	
Current assets	\$ 144,409
Capital assets	215,598
Total Assets	<u>\$ 360,007</u>
<b>Liabilities</b>	
Current liabilities	\$ 28,598
Total Liabilities	<u>28,598</u>
<b>Net Assets</b>	
Capital assets	215,598
Unrestricted	115,811
Total Net Assets	<u>\$ 331,409</u>

The largest portion of the Library's assets consist of investment in capital assets. The remainder of net assets is unrestricted and will be used to fund future programming.

**Statement of Net Assets Operating Results**

	<u>2005</u>
<b>Revenues</b>	
Current property taxes	\$ 29,269
State revenue	3,040
Penal fines	14,023
Interest earned	2,561
Other	8,697
Total Revenue	<u>57,590</u>
<b>Expenses</b>	
Library services	<u>151,741</u>
Change in net assets	(94,151)
Net assets-Beginning	425,560
Net assets-Ending	<u>\$ 331,409</u>

MERRILL DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2005

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**Fund Financial Statements (continued)**

As shown above, the net assets for the Library decreased by \$94,151 during the year. This decrease is mainly due to depreciation and additional capital outlay purchased during the year.

The Statement of Activities presented later provides greater detail on the Library's activity. The cost of providing Library services this year was \$151,741. The amount financed through property taxes was \$29,269.

**Local Property Tax History**

<u>Fiscal Year</u>	<u>% of Revenue</u>	<u>Local Property Tax</u>
2005	51%	\$ 29,269
2004	54%	\$ 28,276

Local property tax revenues in the table include the receipt of delinquent taxes from prior years.

**Budgetary Highlights**

The Library decreased fund balance by \$9,195 for the year ended December 31, 2005. This decrease was planned and mostly due to the purchase of new computers, computer software and automation software and support.

**Budget Adjustments First Vs. Final Budget**

The significant variance between the first and final budget for revenue are as follows:

- We received more memorial revenue than anticipated and increased the budget by \$2,672.
- Penal fines were received in excess of the first budget. This line item was increased by \$723.
- Property taxes also, were received higher than anticipated therefore; the budget was increased by \$1,268.

MERRILL DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2005

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**Budget Adjustments First Vs. Final Budget (continued)**

The significant variances between the first and final budget for expenditures are as follows:

- The capital outlay line item was increased by \$9,802 to accommodate the purchase of new computers, software, automation software and support. A certificate of deposit was cashed in to purchase these items along with the use of savings.
- We increased the professional service line item by \$1,630 to adjust for additional expenditures related to the set up of the new computers.
- The book line item was increased \$2,514. The additional memorial revenue allowed for us to purchase additional books for the Library.

**Budget Variance Final Vs. Actual**

Management believes none of the variances between the final budget and the actual results were significant.

**Capital Assets**

At the end of the year, the Library had \$215,598 invested in capital assets as follows:

	2005
Land	\$ 12,405
Building	148,358
Equipment, furniture, software	75,265
Collection	297,560
Total capital assets	<u>533,588</u>
Less: Accumulated depreciation	<u>(317,990)</u>
Capital assets, net of depreciation	<u>\$ 215,598</u>

The Library added \$6,783 in additions to the collection. The Library also expended \$11,897 to purchase additional computers, software and furniture.

**Currently Known Facts, Decisions, or Conditions**

The Merrill District Library will be putting a District Wide Millage on the ballot in August. The millage will be 6/10 of a mill for both Jonesfield and Lakefield. This will increase the Library's revenue by about \$6,300.

We also know that the State Aid per year per capita was reduced from \$0.4345 to \$0.3590.

**Currently Known Facts, Decisions, or Conditions (continued)**

The Merrill District Library is in the process of automating and has approved monies to be spent from the saving to complete the automation.

The White Pine Cooperative was awarded a grant to develop websites for the libraries that do not have them. The Merrill District Library is one of the libraries participating in this grant.

**Request for Information**

This report is designed to provide a general overview for anyone interested in the Library's finances. Questions concerning this report should be addressed to:

Library Director  
Merrill District Library  
321 West Saginaw  
Merrill, MI 48637

## **BASIC FINANCIAL STATEMENTS**

Merrill District Library  
Governmental Fund Balance Sheet/Statement of Net Assets  
December 31, 2005

	General Fund, Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>Assets</u>			
Cash	\$ 46,107	\$ -	\$ 46,107
Investments	69,623	-	69,623
Taxes receivable	27,600	-	27,600
Prepays	1,079	-	1,079
Capital assets	-	215,598	215,598
Total Assets	<u>\$ 144,409</u>	<u>\$ 215,598</u>	<u>\$ 360,007</u>
<u>Liabilities</u>			
Liabilities			
Accounts payable	\$ 418	\$ -	\$ 418
Accrued payroll taxes	580	-	580
Deferred revenue	27,600	-	27,600
Total Liabilities	<u>28,598</u>	<u>-</u>	<u>28,598</u>
Fund Balance/Net Assets			
Fund Balance			
Undesignated, unreserved	115,811	(115,811)	-
Total Fund Balance	<u>115,811</u>	<u>(115,811)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 144,409</u>		
Net assets:			
Investment in capital assets		215,598	215,598
Unrestricted		115,811	115,811
Total Net Assets		<u>\$ 215,598</u>	<u>\$ 331,409</u>

The accompanying notes are an integral part of these financial statements.

Merrill District Library  
Reconciliation of Balance Sheet of Governmental Fund To Statement of Net Assets  
December 31, 2005

Total Fund Balances - Governmental Funds	\$ 115,811
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	215,598
Total Net Assets - Government-Wide	<u>\$ 331,409</u>

The accompanying notes are an integral part of these financial statements.

Merrill District Library  
Statement of Governmental Revenue, Expenditures, and Changes  
in Fund Balance/Statement of Activities  
For the Year Ended December 31, 2005

	General Fund, Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 29,269	\$ -	\$ 29,269
Penal fines	14,023	-	14,023
State revenue sharing	3,040	-	3,040
Interest	2,561	-	2,561
Contributions and memorials	6,252	-	6,252
Miscellaneous	2,445	-	2,445
Total Revenue	<u>57,590</u>	<u>-</u>	<u>57,590</u>
Expenditures/expenses:			
Culture and recreation - library:			
Wages	28,125	-	28,125
Payroll taxes	2,150	-	2,150
Mileage	352	-	352
Books	6,783	(6,783)	-
Periodicals	485	-	485
Insurance	450	-	450
Memberships and dues	1,498	-	1,498
Utilities	5,462	-	5,462
Professional services	2,280	-	2,280
Supplies	3,211	-	3,211
Programs	294	-	294
Repairs and maintenance	3,326	-	3,326
Miscellaneous	447	-	447
Rent/lease	25	-	25
Capital outlay	11,897	(11,897)	-
Depreciation	-	103,636	103,636
Total Expenditures/expenses	<u>66,785</u>	<u>84,956</u>	<u>151,741</u>
Excess (deficit) of revenues over expenditures/Change in Net Assets	(9,195)	(84,956)	(94,151)
Fund Balance/Net Assets Beginning	125,006	300,554	425,560
Fund Balance/ Net Assets Ending	<u>\$ 115,811</u>	<u>\$ 215,598</u>	<u>\$ 331,409</u>

The accompanying notes are an integral part of these financial statements.



Merrill District Library  
Reconciliation of Statement of Revenue, Expenditures, and Changes in  
Fund Balances of Governmental Fund to the Statement of Activities  
For the Year Ended December 31, 2005

Net Change in Fund Balances - Governmental Funds	\$ (9,195)
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Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	18,680
Depreciation	(103,636)

Change in Net Assets-Governmental-wide	<u>\$ (94,151)</u>
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The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

NOTE 1—Significant Accounting Policies

**The Reporting Entity**

The Merrill District Library was established in 1963, under Public Act 164 of 1877, as amended. An independently elected board sets policy, plans for future direction, and takes responsibility for the overall operations of the Library.

The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special relationships. On this basis, the financial statements of the Library are not included in other governmental entities.

The financial statements of the Merrill District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Library. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. At this time, the Library has no business type activities.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

MERRILL DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Significant Accounting Policies (continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library reports only one fund as follows:

- The General Fund is used to record the operations and maintenance of the Library. Included are all transactions related to the approved current operating budget.

**Assets, Liabilities and Equity**

Cash and investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Receivables and payables – Property tax receivables are shown as gross amounts since uncollectible personal property taxes are undeterminable at year end and the County settles for all real property taxes.

Property Taxes

It is the policy of the Library to recognize revenues from the current property tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing library operations. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County delinquent tax rolls. The amount levied in 2004 for 2005 library operations was .6 mills for Jonesfield Township and .3 mills for Lakefield Township.

MERRILL DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1--Significant Accounting Policies (continued)

Property Taxes (continued)

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets –Assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Capital assets are depreciated using the straight-line method over the following useful lives:

Building and building improvement	20 to 50 years
Furniture and equipment	5 to 10 years
Collections	2 to 3 years

Accounts payable – These amounts are due to vendors at year end.

Deferred revenue – Property taxes levied in 2004 for the 2005 operations are recognized as deferred revenue.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

NOTE 2--Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (ACT) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the General Fund.

The Board adopts appropriation utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

MERRILL DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Budgetary Policies and Data (continued)

The Merrill District Library uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The budget, and any amendments, are adopted on the modified accrual basis of accounting by a majority vote of the Library Board. The budgeted amounts shown in these financial statements are as amended by the Library Board.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budget appropriations lapse at the end of each fiscal year.

NOTE 3--Capital Assets

A summary of the changes in capital assets is as follows:

	December 31, 2004	Additions	Deletions	December 31, 2005
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 12,405	\$ -	\$ -	\$ 12,405
Total capital assets not being depreciated	12,405	-	-	12,405
Capital assets being depreciated				
Building	148,358	-	-	148,358
Equipment, furniture and software	63,368	11,897	-	75,265
Collection	290,777	6,783	-	297,560
Total capital assets being depreciated	502,503	18,680	-	521,183
Less: Accumulated depreciation	(214,354)	(103,636)	-	(317,990)
Governmental activities Capital assets, net of depreciation	\$ 300,554	\$ (84,956)	\$ -	\$ 215,598

MERRILL DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Deposits and Investments

The library is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The library is also authorized by the State of Michigan to invest in the following:

- a. U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury STRIPS
- b. TINTS-Treasury Interest Securities
- c. PRINS or STRIPS-Treasury Principal Securities
- d. Certificates of Deposits, Saving Deposit Receipt and Savings Accounts,
- e. Commercial Paper-short term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short-term cash
- f. Repurchase Agreements
- g. Banker's Acceptance
- h. Investment Pools

At this time, the Library has not adopted an investment policy.

The FDIC insures up to \$100,000 in deposits. However, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as separate deposits for purposes of applying the \$100,000 limit.

The Library's deposits are categorized below according to level of credit risk:

- Category 1 represents the Library's insured or collateralized deposits with securities held by the Library or by its agent in the Library's name.
- Category 2 represents the Library's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the Library's name.
- Category 3 represents the Library's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Library's name.

A summary of those deposits is as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
Checking	\$ 46,387	\$ -	\$ -	\$ 46,387	\$ 46,107
Investments	69,623	-	-	69,623	69,623
Totals	<u>\$ 116,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,010</u>	<u>\$ 115,730</u>



MERRILL DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS

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NOTE 5--Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. During the year ended December 31, 2005, the Library carried commercial insurance for the above listed risks of loss.

NOTE 6--GASB Pronouncements Adoption and Restatement

As of and for the year ended December 31, 2005, the Library implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- *No.34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- *No.37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- *No.38 – Certain Financial Statement Note Disclosures*

Interpretations

- *No.6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

As a result of implementing the GASB 34 statement, the following restatements were made to the beginning balance of net assets.

As of January 1, 2004	
Fund Balance	\$ 125,006
Capital Assets	514,908
Accumulated Depreciation	(214,354)
Net Assets, Restated	<u>\$ 425,560</u>

NOTE 7--Lease

The Merrill District Library leases its copier. Monthly payments are \$55. The amount expensed during the year ended December 31, 2005 was \$660. Future minimum payments are as follows:

Year	Payment
2006	\$ 660
2007	220
	<u>\$ 880</u>



## REQUIRED SUPPLEMENTAL INFORMATION

Merrill District Library  
Budgetary Comparison-General Fund  
For the Year Ended December 31, 2005

	Budget Amounts			Actual Over (Under) Budget
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 28,000	\$ 29,268	\$ 29,269	\$ 1
Penal fines	13,300	14,023	14,023	-
State revenue sharing	3,000	3,040	3,040	-
Interest	1,500	2,217	2,561	344
Contributions and memorials	3,200	5,872	6,252	380
Miscellaneous	1,700	2,301	2,445	144
Total revenues	<u>50,700</u>	<u>56,721</u>	<u>57,590</u>	<u>869</u>
Expenditures:				
Culture and recreation - library:				
Wages	28,650	27,619	28,125	506
Payroll taxes	2,192	2,165	2,150	(15)
Mileage	300	352	352	-
Books	5,070	7,584	6,783	(801)
Periodicals	450	485	485	-
Insurance	288	313	450	137
Memberships and dues	1,700	1,300	1,498	198
Utilities	4,200	5,265	5,462	197
Professional services	600	2,230	2,280	50
Supplies	1,255	2,282	3,211	929
Programs	275	282	294	12
Repairs and maintenance	1,600	3,314	3,326	12
Miscellaneous	300	430	447	17
Rent/lease	820	-	25	25
Capital outlay	3,000	12,802	11,897	(905)
Total expenditures	<u>50,700</u>	<u>66,423</u>	<u>66,785</u>	<u>362</u>
Excess of revenues over expenditures	-	(9,702)	(9,195)	507
Fund Balance, Beginning	125,006	125,006	125,006	-
Fund Balance, Ending	<u>\$ 125,006</u>	<u>\$ 115,304</u>	<u>\$ 115,811</u>	<u>\$ 507</u>



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

March 16, 2006

To the Board  
Merrill District Library  
Merrill, Michigan

In planning and performing our audit of the financial statements of Merrill District Library for the year ended December 31, 2005, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are an opportunities for strengthening internal controls and operating efficiency.

## **Credit Card Policy**

Public Act 266 of 1995 became effective January 8, 1996. The act authorizes the use of credit cards by local units of government for appropriate expenses. The act also sets specific criteria which must be followed. A local unit must have adopted by resolution, a written policy that provides all of the following:

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the local unit.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is lost or stolen.

To the Board  
Merrill District Library  
March 16, 2006  
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- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoices **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.

The total combined authorized credit limit of all credit cards issued by a local unit shall not exceed 5% of the total budget of the local unit for the current fiscal year. The local unit may include in its budget the authorization to pay the balance due on any credit cards including the annual fee and interest.

We noted the Library had applied for and received a credit card during the year ended December 31, 2005 but had not adopted a credit card policy. We noted no transactions on the credit card statement until January 3, 2006.

We recommend the Library adopt a card policy as soon as possible.

#### Fixed Asset Policy

During our audit, we noted that many small purchases had posted to capital outlay instead of supplies. We believe the Library should adopt a capitalization policy and that policy be written to help ensure consistent treatment of similar items in the accounting records. The policy should set a dollar limit under which disbursement are expensed. It should also state that repairs over that dollar limit be expensed if they do not extend the estimated useful life of the assets.

To the Board  
Merrill District Library  
March 16, 2006  
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Investment Policy

Public Act 20 PA, as amended requires local units of government to adopt an investment policy.

The investment policy, at a minimum, must include all of the following:

- (a) A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
- (b) A delegation of authority to make investments.
- (c) A list of authorized investment instruments. If the policy authorizes an investment in mutual funds, it shall indicate whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis.
- (d) A statement concerning safekeeping, custody, and prudence.

We could not find any documentation to suggest the Board of Directors has adopted an investment policy.

We recommend the Board of Directors adopt an investment policy as soon as possible.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with your Director, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Gardner Provenzano, Schauman & Thomas, P.C.*

Gardner, Provenzano, Schauman & Thomas P.C.